



Purpose:

To explain the procedures that retailers must follow in documenting several of the most common Illinois Sales Tax exemptions

Objectives:

- To identify several of the most common exemptions
- To explain how retailers and servicepersons must document sales of tax-exempt items
- To provide additional references for information about each exemption

General information

Retailers and servicepersons are required to pay Illinois Sales Tax (Retailers' Occupation Tax and Service Occupation Tax) on certain sales of tangible personal property. In meeting their sales tax obligations, retailers and servicepersons are permitted to reimburse themselves by collecting the tax from their customers.

Customers who make tax-exempt purchases must provide retailers with proper documentation. In some cases, retailers are required to submit this documentation with their tax returns; see the instructions for each return for further information. Retailers who cannot properly document a tax-exempt sale will be liable for paying sales tax on the transaction.

To obtain one of our forms or a copy of the administrative code, please see the phone numbers and addresses listed at the end of this publication.

Sales to exempt organizations

In Illinois, only organizations that have applied for and received an exemption identification number ("E" number) from the Illinois Department of Revenue qualify as sales-tax-exempt purchasers. Examples of organizations that may qualify for tax-exempt status include units of government, churches, charities, schools, county fair organizations, and certain senior citizen organizations. Once such organizations have been granted their "E" numbers, they may purchase items tax free to further their organizational purposes.

To document tax-exempt purchases from such organizations, retailers must request from the purchaser either

- a copy of the purchaser's exemption letter issued by the department or
- the purchaser's "E" number. (In this case, before completing the transaction, retailers should verify this number by calling the department at 217 782-8881).

For more detailed information about exempt organizations, see 86 Illinois Administrative Code 130.2005 and 130.2007, and Brochure PIO-37.

Sale for resale

Illinois businesses may purchase items tax free to resell. Sales tax is then collected and paid when the items are sold at retail.

To document tax-exempt purchases of such items, retailers must keep in their books and records a certificate of resale containing

- the seller's name and address,
- the purchaser's name and address,
- an identification or description of the items purchased for resale,
- a statement from the purchaser that the items are being purchased for resale,
- the purchaser's signature and the date of signing, and
- one of the following:
 - the purchaser's active Illinois business tax number (IBT) number issued by the department,
 - the purchaser's active resale number issued by the department, or
 - a statement that the purchaser is an out-of-state purchaser who will always sell (and deliver) to his or her customers outside Illinois.

Purchasers may either document their tax-exempt purchases by completing Form CRT-61, Certificate of Resale, or by making their own certificate. A copy of the certificate must be provided to the retailer. Certificates of Resale should be updated at least every three years.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.1405.

Commercial Distribution Fee (CDF) Sales Tax Exemption

Through June 30, 2005, the CDF sales tax exemption applies to the purchase of a second division motor vehicle or trailer if **all** of the following qualifications are met.

- 1 The manufacturer's gross vehicle weight rating (GVWR) is more than 8,000 pounds.
- 2 The motor vehicle or trailer will be used primarily for commercial purposes.
- 3 The Commercial Distribution Fee administered by the Illinois Secretary of State is paid
 - when the vehicle or trailer is registered at the time of purchase (or, directly to the Illinois Secretary of State when the purchaser applies for apportioned plates) **and**
 - in subsequent registration years.

Note: "Used for commercial purposes" means that persons or property are transported as part of a commercial or industrial enterprise, whether for-hire or not.

Although the Commercial Distribution Fee may be imposed and paid, that does not mean that the second division motor vehicle or trailer purchase automatically qualifies for the CDF sales tax exemption. All other qualifications identified in this publication must be met.

Examples of purchases that do not qualify for the exemption are listed below.

- 1 The purchase of a pick-up truck with a manufacturer's GVWR of 7,000 pounds, even if the purchaser claims that the vehicle will carry loads that will cause it to weigh more than 8,000 pounds.
- 2 The purchase of a pick-up truck with a GVWR of 8,200 pounds to be used primarily for personal use.
- 3 The purchase of a sports utility vehicle (SUV) with a GVWR of 7,000 pounds when the purchaser chooses to register the vehicle with

"D" plates and pays the Commercial Distribution Fee.

Purchases of repair and replacement parts may qualify for a sales tax exemption if the motor vehicle or trailer is used in a manner that qualifies for the rolling stock exemption. Use Form RUT-7, Rolling Stock Certification, to document the sale of repair and replacement parts for a motor vehicle or trailer for which the CDF sales tax exemption was claimed.

The purchaser must continue to pay the Commercial Distribution Fee in subsequent years. Otherwise, the vehicle no longer qualifies for the CDF sales tax exemption and Illinois Use Tax is due on the purchase price.

To properly document the exemption, registered dealers must keep in their books and records a written certificate from the purchaser stating the following:

- the name and address of purchaser;
- the description and Vehicle Identification Number of the motor vehicle or motor vehicles being purchased;
- the name and address of seller;
- the date of purchase;
- a statement that the vehicle will be registered under Section 3-815(a) or 3-818(a) of the Illinois Vehicle Code or in such other manner whereby the registration of that motor vehicle will require the payment of the Commercial Distribution Fee imposed under Section 3-815.1 of the Illinois Vehicle Code and that such vehicle will remain validly registered in such a manner for subsequent registration years; and
- the signature of purchaser.

To document their tax-exempt purchases of qualified items, purchasers may complete Form CDF-7, Commercial Distribution Fee (CDF) Sales Tax Exemption Certification, and provide a copy to their sellers.

The **only** "title only" transactions for which the CDF sales tax exemption can be claimed at the time of purchase are those purchases from Illinois dealers

for which the purchaser is applying for apportioned plates. In this situation, the dealer completes a "title only" application at the time of purchase and the purchaser applies for the necessary registration with the Illinois Secretary of State. The purchaser will then be required to pay the Commercial Distribution Fee directly to the Illinois Secretary of State.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.341.

Rolling stock

The rolling stock exemption applies to items (including repair and replacement parts) that are purchased or used by interstate carriers for hire to be used as rolling stock in interstate commerce.

The rolling stock exemption qualifications are based on the type of item sold as shown in the next two sections.

Note: If the original purchase of a second division motor vehicle or trailer qualified for the CDF sales tax exemption, the following criteria must be met for any repair or replacement parts purchases to qualify for the rolling stock exemption.

1. For aircraft, watercraft, and rail carrier items (and repair and replacement parts)

The aircraft, watercraft, or rail carrier item must be used by an interstate carrier for hire to carry persons or commodities in interstate commerce on a regular and frequent basis.

2. For second division motor vehicles and trailers (and repair and replacement parts)

A **motor vehicle** must have a gross vehicle weight rating (GVWR) greater than 16,000 pounds. The GVWR is the weight identified by the manufacturer or manufacturers as the maximum loaded weight that the motor vehicle can carry safely.

A **motor vehicle** or **trailer** must carry persons or property for hire in interstate commerce for either

- more than 50 percent of its total **trips** in a 12-month period, or
- more than 50 percent of its total **miles** in a 12-month period.

Trips or mileage of a motor vehicle or trailer for which persons or property are carried for hire just between points in Illinois may be used to qualify for the exemption if the journey of the passenger or shipment of the property either originates or terminates outside Illinois.

It is not the type of item that determines whether or not it qualifies for use as rolling stock, but how the item is used by an interstate carrier for hire. Only those items specifically used as rolling stock will qualify for this exemption. For example, items do **not** qualify for use as rolling stock when they are used only

- to transport company officers, employees, customers or others not for hire (even if the persons cross state lines); or
- to transport property that a business owns or is selling and delivering to customers (even if the items cross state lines); or
- as support vehicles (other than those specifically used for “escort” service) when the vehicles do not haul persons or commodities for hire in interstate commerce.

Purchasers must provide documentation to retailers that they are interstate carriers for hire.

- When required by law, the carrier must possess a valid certificate of authority number issued by the federal Interstate Commerce Commission (ICC).
- When not required by law to possess the certificate named above, the carrier must either
 - possess a valid certificate of authority number issued by the Illinois Commerce Commission for a qualifying vehicle or

- possess a valid number issued by another regulatory agency, such as the Federal Aviation Administration.

To document tax-exempt purchases of such items, retailers must keep in their books and records

- the seller’s name and address,
- the purchaser’s name and address,
- the purchaser’s certification number as described above,
- an identification or description of the items purchased,
- a statement that the purchaser is purchasing the items for use as rolling stock in interstate commerce for hire, and
- the purchaser’s signature and the date of signing.

Purchasers of vehicles should document their tax-exempt purchases by completing Form RUT-7, Rolling Stock Affidavit, and providing a copy to their retailers. Purchasers also must identify which method will be used to document the exemption — trips or mileage. This choice must be documented on the required tax return. Once made, this election cannot be changed. If no choice is indicated, the purchaser will be deemed to have chosen the mileage method.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.340.

Farm machinery and equipment

The farm machinery and equipment exemption applies to purchases of farm machinery and equipment used or leased for use primarily (more than 50 percent of the time) in production agriculture or for use in state or federal agricultural programs; the exemption also applies to repair and replacement parts for qualifying machinery and equipment. Excluded from this exemption are motor vehicles required to be registered under the Illinois Motor Vehicle Code.

To document tax-exempt purchases of such items, retailers must keep in

their books and records an exemption certificate containing

- the seller’s name and address,
- the purchaser’s name and address,
- an identification or description of the items purchased,
- a statement from the purchaser that the items are being used primarily in production agriculture or in a state or federal agricultural program, and
- the purchaser’s signature and the date of signing.

Purchasers may document their tax-exempt purchases either by completing Form ST-587, Machinery and Equipment Exemption Certificate, or by making their own certificate. A copy of the certificate must be provided to the retailer.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.305.

Manufacturing machinery and equipment

The manufacturing machinery and equipment exemption applies to purchases of machinery and equipment used primarily (more than 50 percent of the time) in manufacturing or assembling items for wholesale or retail sale or lease.

To document tax-exempt purchases of such items, retailers must keep in their books and records one of the following:

- the purchaser’s active Illinois business tax number (IBT) issued by the department
- the purchaser’s active resale number issued by the department
- an exemption certificate containing
 - the seller’s name and address,
 - the purchaser’s name and address,
 - an identification or description of the items purchased,
 - a statement from the purchaser that the items are being used primarily in manufacturing or assembling items for wholesale or retail sale or lease, and

— the purchaser's signature and the date of signing.

Purchasers may document their tax-exempt purchases either by completing Form ST-587, Machinery and Equipment Exemption Certificate, or by making their own certificate. A copy of the certificate must be provided to the retailer.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.1405.

Graphic arts machinery and equipment

The graphic arts machinery and equipment exemption applies to purchases of machinery and equipment used primarily (more than 50 percent of the time) in graphic arts production.

To document tax-exempt purchases of such items, retailers must keep in their books and records an exemption certificate containing

- the seller's name and address,
- the purchaser's name and address,
- an identification or description of the items purchased,
- a statement from the purchaser that the items are being used primarily in graphic arts production, and
- the purchaser's signature and the date of signing.

Purchasers may document their tax-exempt purchases either by completing Form ST-587, Machinery and Equipment Exemption Certificate, or by making their own certificates. A copy of the certificate must be given to the retailer.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.325.

Interstate commerce

The interstate commerce exemption applies to sales made from Illinois businesses that are delivered outside Illinois and are not returned to Illinois for use.

The documentation to validate use of this exemption depends upon the manner in which the merchandise is delivered.

- If the item is shipped by common carrier, retailers must keep in their books and records a waybill or bill of lading showing the delivery address outside Illinois.
- If the item is sent by mail, retailers must keep in their books and records a receipt from the U.S. Postal Service showing the name of the addressee, the delivery address outside Illinois, and the date the item was mailed.
- If retailers use their own transportation equipment, they must keep in their books and records a trip sheet containing the name, address, and signature of the out-of-state purchaser and the signature of the person making the delivery.

This exemption does not apply to sales to out-of-state buyers in which the buyer takes physical possession of the item in Illinois.

For more detailed information about this exemption, see 86 Illinois Administrative Code 130.605.

Recently repealed exemptions

Effective July 1, 2003, several exemptions have been repealed. These exemptions are listed below.

- Pollution control facilities
- Oil field exploration, drilling, and production equipment
- Coal exploration, mining, offhighway hauling, processing, maintenance, and reclamation equipment
- Distillation machinery and equipment
- Aggregate exploration, mining, offhighway hauling, processing maintenance, and reclamation equipment
- Machines and parts for machines used in commercial, coin-operated amusement and vending businesses if a use or occupation tax is paid on the gross receipts from these machines

Other exemptions

The exemptions discussed above do not represent a comprehensive list of Illinois Sales Tax exemptions. If you have questions about any exemption, write or call us.

For information or forms

Call us at **1 800 732-8866** or **217 782-3336**.

Call our TDD (telecommunications device for the deaf) at **1 800 544-5304**.

Write us at Illinois Department of Revenue, P.O. Box 19044, Springfield, IL 62794-9044.

Visit our Web site at **www.ILtax.com**.

Call our 24-hour Forms Order Line at **1 800 356-6302**.



Printed by authority of the State of Illinois
(2,000 - 10/04 - 2050346)